

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-12 IO-14 ISO-00 SP-02 ICA-20  
AID-05 NSC-05 SS-15 STR-07 OMB-01 CEA-01 L-03  
H-02 PA-02 CIAE-00 FRB-01 INR-10 NSAE-00 XMB-04  
OPIC-06 LAB-04 SIL-01 /136 W  
-----069973 281742Z /53

P R 281659Z JUN 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 7642  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH  
USMISSION GENEVA  
USDOC WASHDC

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USEEC ALSO FOR EMBASSY  
USOECN ALSO FOR EMBASSY  
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR  
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A  
TAGS: ECON, UK  
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JUNE 22 - 28

SUMMARY: THE FOREIGN EXCHANGE MARKET AGAIN FOCUSSED ON  
THE DOLLAR/YEN RELATION, STERLING'S TRADE-WEIGHTED IN-  
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DEX FALLING, BUT DOLLAR VALUE RISING MILDLY BY TODAY.  
THE FINANCIAL MARKETS WERE NOT ACTIVE, STILL RECOVERING  
FROM MASSIVE GILT SALES. A FINANCIAL TIMES SURVEY IN-  
DICATED THAT CONSUMER CONFIDENCE WAS BEING ERODED, AL-  
THOUGH AN ANALYSIS OF BANK ADVANCES SHOWED ADVANCES TO  
PERSONS IN THE BANKING QUARTER ENDED MID-MAY TO HAVE  
RISEN 6 PERCENT OVER THE PREVIOUS QUARTER. END SUMMARY

1. THE LATEST FINANCIAL TIMES SURVEY OF CONSUMER CONFIDENCE REPORTED THAT PESSIMISTS OUTWEIGHED OPTIMISTS BY AN 8 PERCENT MARGIN OF THOSE INTERVIEWED. IN THE SURVEY TAKEN JUST AFTER THE APRIL BUDGET, OPTIMISTS OUTWEIGHED PESSIMISTS BY A 12 PERCENT MARGIN. 39 PERCENT REPLIED THEY BELIEVED UNEMPLOYMENT WOULD RISE COMPARED WITH 36 PERCENT LAST MONTH AND THE RECENT LOW OF 28 PERCENT IN JANUARY. ALTHOUGH THOSE WHO BELIEVE THAT IT IS A GOOD TIME TO BUY CONSUMER DURABLES STILL OUTNUMBER BY 16 PERCENT THOSE WHO BELIEVE IT A BAD TIME, THIS MARGIN CONTINUES TO DECLINE.

2. THE QUARTERLY ANALYSIS OF BANK ADVANCES SHOWED TOTAL BANK ADVANCES INCREASING 1,234 MILLION POUNDS IN THE BANKING QUARTER TO MID-MAY, SEASONALLY UNADJUSTED. IF SEASONAL FACTORS ARE APPLIED, TOTAL ADVANCES WOULD INCREASE BY AROUND 1,500 MILLION POUNDS. IN THE 12 MONTHS TO MID-MAY STERLING ADVANCES TO UNITED KINGDOM RESIDENTS ROSE BY 4,352 MILLION POUNDS, OR 17 PERCENT. OF THE INCREASE OVER THE QUARTER, 692 MILLION POUNDS IS ATTRIBUTABLE TO ADVANCES TO SERVICES, A 9 PERCENT INCREASE, AND 278 MILLION POUNDS TO ADVANCES TO INDIVIDUALS, A 6 PERCENT RISE. BRITISH LEYLAND'S REPAYMENT OF 150 MILLION POUNDS IN BANK LOANS (FOLLOWING A RIGHTS ISSUE) HELD THE NET INCREASE IN ADVANCES TO MANUFACTURING INDUSTRY TO 52 MILLION

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POUNDS.

3. STERLING FELL ON AN EFFECTIVE BASIS BUT SHOWED STRENGTH AGAINST THE DOLLAR THIS WEEK, ESPECIALLY AFTER SENATE ACTION BLOCKING OIL IMPORT FEES. GENERALLY, ATTENTION CENTERED ON DOLLAR/YEN ACTIVITY WITH A BELIEF THAT IF U.S. INDICATORS (TRADE FIGURES AND CONSUMER PRICES) WERE BAD, THE 200 LEVEL WOULD BE BREACHED. THE U.S. TRADE FIGURES WERE BETTER THAN EXPECTED.

STERLING THIS WEEK WAS DESCRIBED AS GENTLY FIRM, WITH LITTLE OR NO BANK OF ENGLAND INTERVENTION. RECENT GILT SALES AND THE 10 PERCENT MLR HAVE STRENGTHENED SPOT AND GIVEN EURO-STERLING A MORE POSITIVE TONE. DEALERS DO NOT SEE ANY EVENTS IN THE NEXT FEW WEEKS THAT WOULD SERIOUSLY DISTURB STERLING'S RELATIVE TRANQUILITY, WITH ONE EXCEPTION. FOR THE FIRST TIME, WE ARE HEARING THAT THE PROS-

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OPIC-06 LAB-04 SIL-01 /136 W

-----070068 281742Z /53

P R 281659Z JUN 78

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 7643

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY PARIS

AMEMBASSY ROME

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AMCONSUL BELFAST

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PECTIVE MOVES TOWARD EMU ARE INFLUENCING RATES. THERE IS A REPORT FROM A HIGHLY RESPECTED SOURCE THAT THE RUMORED PROSPECTIVE ENTRY OF THE FRENCH FRANC INTO THE INNER SNAKE CAUSED IT TO STRENGTHEN, WHILE THE POSSIBLE ENTRY OF STERLING INTO THE BOA (I.E., THE OUTER SKIN) HAS HAD AN UNSETTLING EFFECT ON THE MARKET.

4. THE GILT MARKET DRIFTED DOWNWARD THROUGH THE GREATER PART OF THE WEEK. MARKET SOURCES POINT TO EXPECTATIONS THAT FURTHER RISES IN US INTEREST RATES WILL BE COMMUNICATED TO UK MARKETS AS THE PREVALENT FORCE IN THE FALL. THE TUESDAY 30-POUND CALL, ON THE PARTIALLY-PAID LONG TAP, THE UNCLASSIFIED

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EXCHEQUER 12 PERCENT 2013-2017, PUT ADDITIONAL PRESSURE ON THE MARKET FRIDAY AND MONDAY, BUT THE MARKET RECOVERED SOME OF THESE LOSSES ON TUESDAY. THE CALL DID NOT OCCAS-

ION EXTRAORDINARY PRESSURES IN THE MONEY MARKETS. ONE MARKET CONTACT SIMPLY NOTED THAT THE HIGH LEVEL OF GILT SALES FOLLOWING THE CHANCELLOR'S LATEST MONETARY PACKAGE REDUCED INSTITUTIONAL LIQUIDITY SUFFICIENTLY TO TAKE THE LIFE FROM THE MARKET FOR A WHILE.

#### 5. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC. 1971 EQUALS 100)	GOLD (\$)
6/21	1.8495	61.5	186-7/8
6/22	1.8380	61.4	185-1/8
6/23	1.8490	61.4	186-1/8
6/26	1.8495	61.3	185-1/8
6/27	1.8475	61.3	184-7/8
CHANGE 6/20-6/27 UP 0.0073 UNCHANGED DOWN 1-1/2			

#### 6. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
6/21	- 0.58	- 1.53	- 2.82
6/22	- 0.42	- 1.35	- 2.63
6/23	- 0.45	- 1.36	- 2.65
6/26	- 0.37	- 1.37	- 2.70
6/27	- 0.48	- 1.40	- 2.77
CHANGE 6/20-6/27 UP 0.10 UP 0.22 UP 0.13			
(ALL FIGURES IN CENTS)			

#### 7. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
6/21	7-5/8	8-1/2	8-7/8

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6/22	8-1/8	8-5/8	9
6/23	8-3/16	8-11/16	9-1/16
6/26	8-5/8	8-11/16	9-1/8
6/27	8-3/16	8-13/16	9-3/16
CHANGE 6/20-6/27 UP 1/16 UP 3/16 UP 1/8			

#### 8. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL	
DATE	
6/21	1-9/16
6/22	1-5/16
6/23	1-5/16
6/26	1-1/2
6/27	1-3/8
CHANGE 6/20-6/27 DOWN 3/32	

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#### 9. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
6/21	10-5/32	9-15/16	9-15/16
6/22	9-31/32	9-15/16	9-31/32
6/23	9-15/16	9-15/16	10-3/32
6/26	10	10-1/16	10-9/32
6/27	9-63/64	10-1/16	10-9/32

CHANGE 6/20-6/27 DOWN 17/64 UP 3/32 UP 5/16

#### 10. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON

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GOVERNMENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
6/21	11.63	12.71	12.97
6/22	11.71	12.71	12.99
6/23	11.86	12.85	13.08
6/26	11.96	12.92	13.15
6/27	11.82	12.84	13.05
CHANGE 6/20-6/27	UP 0.17	UP 0.14	UP 0.07

11. THE MINIMUM LENDING RATE REMAINED 10 PERCENT AS SET BY THE BANK OF ENGLAND JUNE 8.

12. THE TREASURY BILL RATE ROSE 0.1198 PERCENT TO 9.2546 PERCENT AT THE FRIDAY AUCTION AS THE 300 MILLION POUNDS IN BILLS TENDERED ATTRACTED 617.97 MILLION POUNDS IN BIDS. THIS WEEK 300 MILLION POUNDS IN BILLS WILL BE OFFERED AS 600 MILLION POUNDS MATURE.

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Disposition Date:** 01 jan 1960  
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**Previous Handling Restrictions:** n/a  
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**Review Event:**  
**Review Exemptions:** n/a  
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**Review Release Date:** N/A  
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**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Secure:** OPEN  
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**Subject:** ECONOMIC DEVELOPMENTS FOR PERIOD JUNE 22 - 28 SUMMARY: THE FOREIGN EXCHANGE MARKET AGAIN FOCUSED ON THE DOLLAR/YEN RELATION, STERLING'S TRADE-WEIGHTED  
**TAGS:** ECON, UK  
**To:** STATE TRSY  
**Type:** TE  
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Sheryl P. Walter  
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